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# Economic Monitor

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Georgia Southern University

Center for Business Analytics and Economic Research

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# Coastal Empire ECONOMIC MONITOR

## REGIONAL ECONOMY EXPANDED, BUT SLUGGISH GROWTH AHEAD

Second quarter growth in the Savannah metro economy was good, a pick-up from the modest growth of the first quarter. Tourism led the way, accompanied by growth in retail sales, port activity, and overall employment. Consumer confidence wavered somewhat during the quarter.

The economic forecasting index increased, but at a more moderate pace as compared to the first quarter surge. Continued strength in the labor market lifted the index while the housing market mostly moved sideways during the quarter.

Overall, expansion in the regional economy continued at an above-average pace. However, expect slowing growth through the remainder of 2018.

### Economy Up, But Employment Growth Slows

The Savannah metro economy expanded at a rate of 1% (3.9% annualized) as reflected in the increase of the coincident index of economic activity to 184.2 from 182.5 (revised upward). During the past seven quarters, the Savannah Metro Business Index increased at the annualized rate of 2.8%.

Approximately half of the lift in the index was provided by the tourism sector, a notable rebound from weather-related declines of about 3% in the winter quarter. Seasonally and inflation adjusted hotel room rentals increased 8.2%, while plane boardings at the airport increased 11%. Retail sales increased 6% and port activity maintained over-the-year growth of 6.3%. Electricity sales (a broad indicator of residential, commercial, and industrial activity) were flat and consumer confidence in the south Atlantic states declined 4%, erasing the improvement in consumer sentiment during the first quarter.

Total employment reported in Savannah's three-county metro area was 179,800, up slightly less than 1% on an over-the-year basis. This extends the period of slowing employment growth dating back to 2015 when post-recession over-the-year employment growth peaked at 5%. Early data from the third quarter suggests continued sluggishness in employment growth.

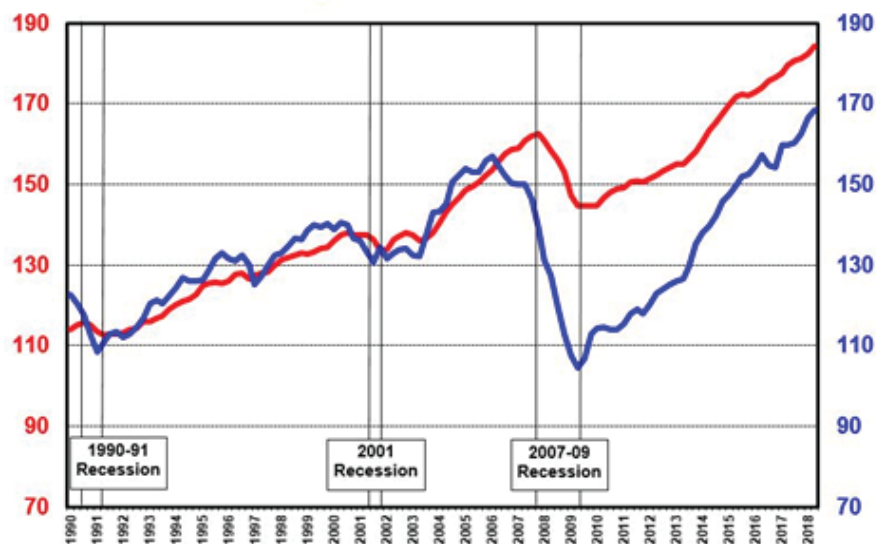
Concurrent with slowing employment growth in the Savannah metro area is a decline in both the length of the workweek and average hourly pay in the private sector. The workweek fell from 33.8 hours in 2017 to 33.4 hours in 2018 (YTD). Further, hourly pay fell from \$23.73 in 2017 to \$22.40 in 2018 (See chart).

Although the reported figure for regional employment increased 900 jobs during the quarter, the data reported for the

individual sectors of the economy, when taken together, suggest a loss in employment of about the same magnitude. While this disconnect between the total figure and the underlying individual sectors has been present for four quarters, the overall movement in total employment has roughly corresponded with aggregated sector-level data during the past year. In other words, the total and sector level data have been generally moving together (as they should), but trends in individual sectors have become more difficult to identify in quarter-to-quarter data.

Nonetheless, manufacturing appears to have added 200 workers to stand at 17,700, a three-year high. Construction employment remained steady at 7,500. Local government employment fell by 300 workers. The leisure and hospitality industry employs 26,000 workers.

**Savannah Metro Business Index**  
**Leading and Coincident Series**



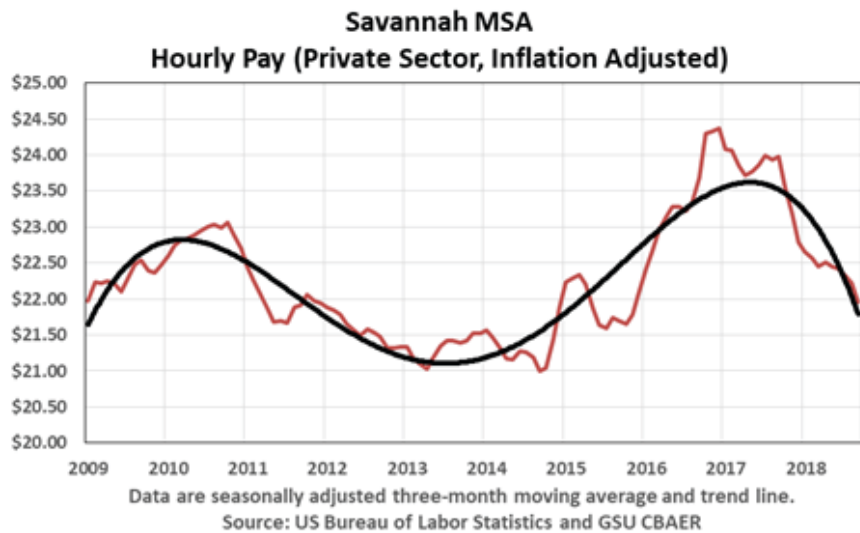
## U.S. Economy Up Sharply

U.S. GDP expanded at an annual rate of 4.2% in the second quarter of 2018, up from 2.2% in the previous quarter. Household consumption increased at a rate of 3.8%. Non-residential construction advanced 14.5%, but residential construction dipped by 1.3%. Exports were strong, rising at a 9.3% pace. Federal government spending rose at a rate of 3.7% while state and local government spending increased at a rate of 1.8%.

Amid continued strength in the US economy, the Federal Reserve recently raised short term interest rates into the range of 2% to 2.25%. Fed-watchers anticipate a fourth rate hike in December. Another two to three hikes are expected in 2019 with less activity in 2020 - perhaps one additional increase. Overall, the Fed comfort level with raising rates is fostered by normalization of economic growth and muted inflationary pressure. The Fed expects the national economy to grow at a better-than-expected rate of 3.1% during the rest of 2018, with growth slowing to 2.5% in 2019.

## Regional Forecasting Index Rises

The Savannah metro area forecasting index increased 1.3% (5.3%, annualized), a decline from the nearly 10% annualized growth rate of the previous quarter. The forecasting index primarily increased on the strength of the US leading index and relatively few layoffs in the regional labor market. The regional housing market generally moved sideways during the quarter.



In the housing market, seasonally adjusted building permit issuance for single family homes fell 4.7%, consistent with the nationwide quarterly softness in the housing market. Building permits issued for single family homes fell to 513 during the quarter as compared to 522 units in the first quarter. Further, the average valuation of building permits for single family homes fell 0.7%, dropping to \$219,000 from \$221,000.

Despite the sluggishness in hiring and the shortening workweek (noted above), firms remain reluctant to release labor. The number of initial claims for unemployment insurance (UI) fell nearly 5% to 516 from 541 in the previous quarter. The number of claims remains about 10% below the amount normally expected given the size of the workforce and historical layoff rates. Accordingly, the seasonally adjusted unemployment rate fell to 3.6%, dropping from 4% in the previous quarter. The

unemployment rate was 4.5% in the second quarter of 2017.

In summary, economic growth in the Savannah metro area ticked up in the second quarter. However, there appears to be emerging softness in regional employment growth and other indicators of workforce utilization (shortening workweek and falling hourly pay). Thus, despite the relatively healthy signal sent by the forecasting index, the expectation is that regional economic activity will slow, but remain positive, during the remainder of 2018. Overall employment growth is expected to slow to a crawl, and regional economic growth will depend on workforce productivity gains.

*Morgan Rushing provided research assistance.*

## A Note From the Director

The *Economic Monitor* is available by email and at the Center's website ([georgiasouthern.edu/business/big/big-programs/cbaer/](http://georgiasouthern.edu/business/big/big-programs/cbaer/)). If you would like to receive the *Monitor* by email, please send a 'subscribe' message to [CBAER@georgiasouthern.edu](mailto:CBAER@georgiasouthern.edu).



## About the Indicators

The *Economic Monitor* provides a continuously updating quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.